

Wheeler provides ACC regulatory update at Leadership Forum Unveils new emphasis for regulatory process

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"In a 2007 national survey of industry CEOs, regulatory certainty and climate supersede concerns about reliability and fuel costs," **Steve Wheeler**, Executive Vice President, Customer Service and Regulatory, said as he opened his presentation at Tuesday's Leadership Forum.

Wheeler reviewed the national average utility infrastructure cost indices, too. He noted the cost of building more power plants, transmission and distribution lines has increased significantly faster than the general rate of inflation.

"It's not just fuel cost increases that affect our customers," he said, "and it's not just an Arizona situation. Escalating infrastructure costs affect our entire industry throughout the country."

Wheeler also discussed how the regulatory model in Arizona has evolved over time from a primarily judicial process to a more free-wheeling legislative process.

"We are looking at a new emphasis in our work with the Commission (the Arizona Corporate Commission)," Wheeler said. "We want to develop a process that is more collaborative and less adversarial; one that includes full and timely communication on all the issues important to commissioners and our customers."

Key issues to be discussed would include:

- Responding to growth
- Effective cost management
- Superior customer programs
- Sustainable resource planning and acquisition
- Regulatory creativity
- Regulatory process improvement

Wheeler also talked with attendees about the challenge of addressing growth-related issues.

"Growth always was an issue in the past. So what's different now?" he asked.

He went on to answer the question of how growth challenges have changed through the years. For example, internally the company's historical operational and financial efficiency gains have plateaued and significant overall economies of scale no longer are available. Meanwhile, externally, construction and material prices are higher, expansion is on the geographic fringes and regulatory cost recovery methods have not kept pace.

"The result is unit costs remain higher than prices. But, there are a number of available regulatory responses that will benefit our customers, our shareholders and the environment," Wheeler said.

Wheeler discussed the pros and cons of the various approaches for paying the costs associated with growth. He also discussed the details of the company's pending proposal before the Commission to significantly revise APS' line extension policy in a manner that will reduce the need for future rate increases from existing customers and respond to the Commission's desire that "growth pay for itself."

"How a growth fee is structured matters greatly to the company and our customers," he said. "We believe a growth fee responsive to the Commission's request, fair to customers and helpful to the company can be developed."